

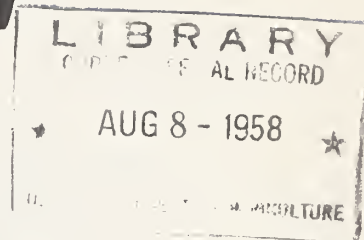
## **Historic, Archive Document**

Do not assume content reflects current scientific knowledge, policies, or practices.



9280.3449  
211 34711  
Cop. 2

# Milk Distributors



## Sales and Costs

July - September 1957

U. S. DEPARTMENT OF AGRICULTURE  
Agricultural Marketing Service  
Marketing Research Division



## MILK DISTRIBUTORS' SALES AND COSTS

By D. D. MacPherson and Helen V. Smith  
Market Organization and Costs Branch  
Marketing Research Division  
Agricultural Marketing Service

---

:  
: This report is the current issue of a series based upon :  
: information obtained from distributors of fluid milk and :  
: cream products. These distributors are subscribers to a :  
: cost comparison service which furnished the Department with:  
: tabular data for analyses. A uniform accounting system is :  
: used and information is given on standardized forms. Data :  
: reported include: Costs and quantities of raw milk and :  
: other raw materials; prices and quantities of products :  
: sold; and operating costs. :  
:  
: The firms selected are considered to be typical in the :  
: following characteristics: Privately owned, moderate size :  
: and chiefly single plant firms. Very small firms, national:  
: chains, and producer-distributors are not included. :  
:  
: All major geographic areas of the country are represented. :  
:

---

Milk distributors' sales value of dairy products, in the July-September quarter of 1957, increased seasonally, but was still \$0.14 per 100 pounds of milk and cream processed below the same quarter of 1956. The cost of raw milk and cream recovered from the more than seasonal decline earlier in the year but continued lower than a year earlier. The gross margin of distributors declined for the second consecutive quarter. Operating costs which increased nearly 3 percent from the April-June quarter, reached a new high, primarily as a result of increasing personnel costs; other major cost items also increased. Net margin decreased one-third from the previous quarter but was considerably above the low levels of the latter part of 1956.

### SALES VALUES BELOW LAST YEAR

Distributors' sales value of dairy products, per 100 pounds of milk and cream processed, averaged \$11.10 in the third quarter of 1957, a somewhat more than seasonal increase from the unusually low level of \$10.85 in the April-June quarter. However, the sales value was \$0.14 below the same quarter a year earlier. It appears that the generally upward trend which began in 1954 has halted, at least temporarily. Sales value for the first three quarters of 1957 averaged higher than for the same periods of 1954 and 1955 but lower than for 1956 (table 1).



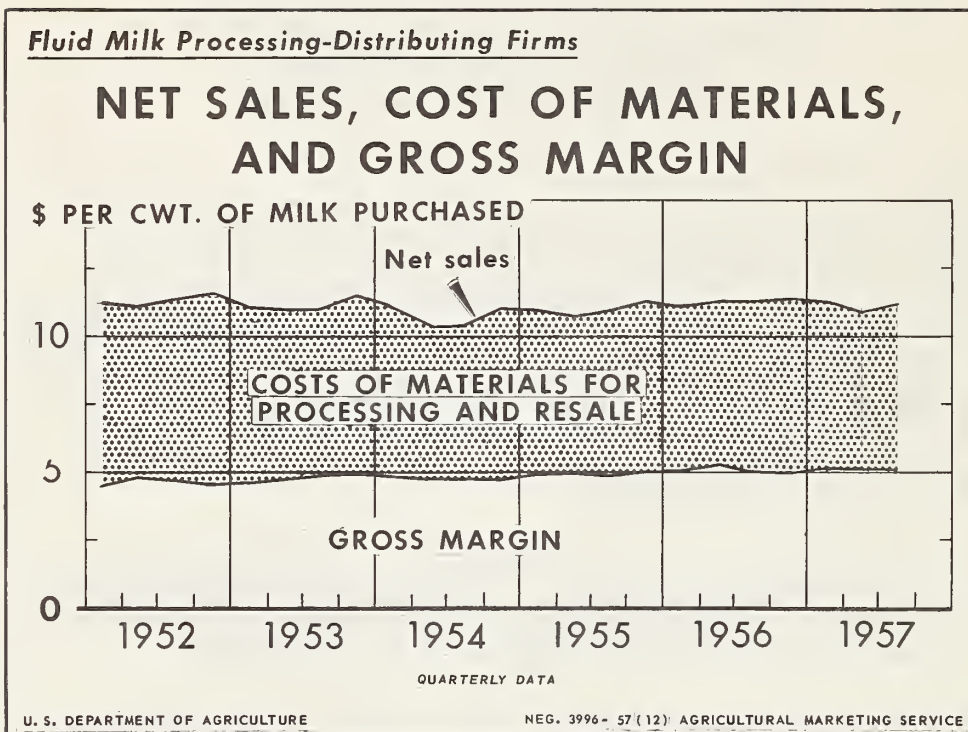


Figure 1

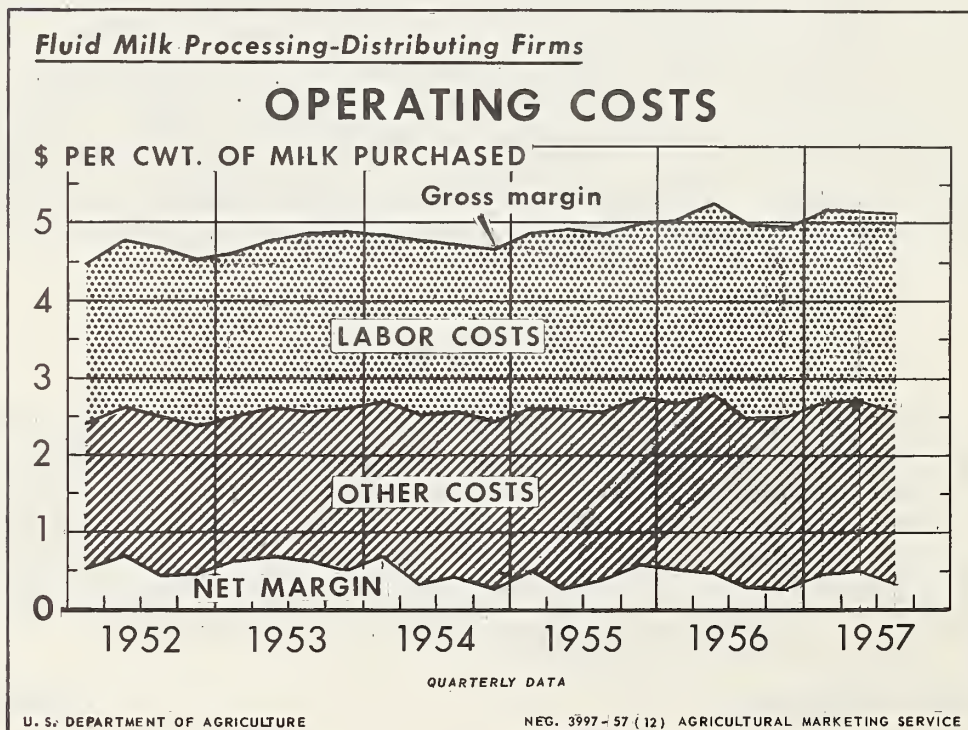


Figure 2

## RAW MILK AND CREAM COSTS CONTINUE BELOW 1956

Cost of goods sold in the third quarter of 1957 increased a little more than usual for the season. At \$5.98 per 100 pounds of milk and cream processed, this cost was \$0.28 more than the previous quarter and \$0.29 below the same quarter last year. The average cost of goods sold in 1957 was about the same as for 1955 and approximately 6 percent below 1956. Most of the variation in cost of goods sold is in the cost of raw milk and cream which generally increases 4 to 5 percent in each quarter from April-June to October-December and declines 2 to 3 percent from October-December to January-March and 8 to 10 percent the following quarter. Costs of other raw materials tend to be higher in the spring and summer months.

Cost of goods sold accounted for 53.8 percent of the sales value of product, up 1 percent from the previous quarter, but 2 percentage points below the same quarters of 1955 and 1956. Consequently, gross margin decreased about 1 percent from June to September.

## MOST OPERATING COSTS SHOW SIDELINE TREND

Operating costs rose slightly from last quarter but generally continued the sidewise trend of the last 6 quarters. During this period the maximum variation has been less than 3 percent. There is an indication that operating costs may again move generally higher, since these costs declined during the second and third quarters of the past three years, but rose in 1957. While the increase was small, it still was sufficient to bring milk distributors' operating costs to an all time high in dollar amount and in percent of sales value of product.

Personnel costs again moved upward and, at \$2.53 per 100 pounds of milk and cream processed, accounted for \$0.08 of the \$0.13 rise in total operating costs. However, the rise from the same period last year was only \$0.03 per 100 pounds of milk and cream processed as compared to \$0.20 the previous year and \$0.12 from 1954 to 1955. Personnel costs are now 23 percent of the sales value of product and 53 percent of total operating costs. Container costs averaged about the same as a year ago. The other major cost item--repairs, rent, and depreciation on buildings and equipment--continues to increase at a rate of around 5 percent each year. Of the lesser costs, advertising declined over 25 percent from the previous quarter and at \$0.15 per 100 pounds of milk and cream processed is the lowest since early 1954.

Net margin, the remainder for payment of income taxes and return on invested capital decreased from the \$0.48 of the previous quarter to \$0.32 as a result of a decrease of \$0.03 in gross margin and an increase of \$0.13 in operating costs. The decline follows the general pattern of previous years. However, net margin was considerably higher than the very low level of a year ago. Net profits during the past six years have averaged 4.6 percent of sales value during the first half of the year and 3.5 percent during the second half.



Table 1.--Trends in operating costs per hundred pounds of milk and cream processed by a selected group of dairy firms, by years, 1952 to 1956, and by quarters, July-September 1956 to July-September 1957

Cost item	1952				1953				1954				1955				1956				1957			
	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.
Net sales.....	11.32	11.12	10.69	10.95	11.22	11.24	11.31	11.29	10.85	11.10														
Cost of raw materials																								
Raw milk and cream.....	5.85	5.43	5.07	5.12	5.30	5.29	5.56	5.29	4.82	5.09														
Other.....	.86	.90	.86	.94	.88	.98	.81	.83	.88	.89														
Total.....	6.71	6.33	5.94	6.05	6.18	6.27	6.37	6.12	5.70	5.98														
Gross margin.....	4.61	4.79	4.75	4.91	5.04	4.97	4.94	5.17	5.15	5.12														
Operating cost																								
Salaries, wages, and commissions 1/.....	2.15	2.19	2.21	2.28	2.43	2.50	2.46	2.48	2.45	2.53														
Containers.....	.60	.62	.65	.70	.72	.69	.71	.73	.68	.70														
Operating supplies.....	.30	.32	.35	.32	.28	.29	.28	.29	.29	.29														
Repairs, rent, and depreciation.....	.50	.52	.57	.60	.64	.64	.65	.66	.66	.68														
Taxes.....	.06	.06	.06	.06	.05	.05	.05	.05	.05	.06														
Insurance.....	.02	.02	.03	.04	.04	.03	.04	.04	.04	.04														
Services.....	.16	.19	.19	.18	.17	.19	.16	.15	.17	.20														
Advertising.....	.15	.15	.16	.18	.19	.18	.18	.18	.19	.15														
General.....	.15	.13	.13	.14	.16	.16	.18	.15	.14	.15														
Total.....	4.09	4.20	4.35	4.50	4.68	4.73	4.71	4.73	4.67	4.80														
Net margin 2/.....	.52	.59	.40	.40	.36	.24	.23	.44	.48	.32														
Firms reporting.....	43	51	75	83	80	80	80	80	80	80														

1/ Includes State unemployment, Federal old age, workmen's compensation, and employee benefits.  
 2/ Net returns to owners before income taxes.



# THE OPERATING COST DOLLAR

Costs charged to the delivery and selling function account for almost one-half of the total operating cost dollar. The importance of this expense is shown by considering the proportion of individual cost elements: Of the total of 52.6 cents charged to salaries, wages, and commissions (not including office personnel who handle accounts receivable, payroll records, etc.) delivery and selling take 31.8 cents or 61 percent of the total. Of the total of 14.1 cents charged to repairs, rent, and depreciation, the amounts charged against trucks and other delivery and selling equipment takes 7.1 cents, more than all others combined (table 2). Of the 5.8 cents of operating

Table 2.--The operating cost dollar allocated by function, 80 selected dairy plant firms, July-September 1957

Cost item	Total expenses	Procurement	Processing	Delivery and selling	Administrative
	Cents	Cents	Cents	Cents	Cents
Total <sup>1/</sup> .....	100.0	1.5	38.2	49.3	11.1
Salaries, wages, etc. <sup>2/</sup> .....	52.6	.8	13.0	31.8	7.0
Containers.....	14.7	<sup>3/</sup>	14.6	<sup>3/</sup>	—
Operating expenses.....	5.8	.2	1.8	3.4	.4
Repairs, rent, and depreciation.....	14.1	.4	6.0	7.1	.6
Taxes.....	1.1	<sup>3/</sup>	.4	.5	.2
Insurance.....	.8	<sup>3/</sup>	.2	.4	.2
Services.....	4.1	<sup>3/</sup>	1.9	1.1	1.0
Advertising.....	3.7	<sup>3/</sup>	—	3.7	<sup>3/</sup>
General.....	3.1	<sup>3/</sup>	.1	1.3	1.6

<sup>1/</sup> Totals do not add due to rounding.

<sup>2/</sup> Includes State unemployment, Federal old age, workmen's compensation, and employee benefits.

<sup>3/</sup> Less than 0.05 cents.

expenses, gasoline, oil, and tires alone take 3.0 cents, or over half of the total. In the minor expense categories, insurance on trucks and drivers is more than half of the total insurance expense. Nearly all of the advertising cost of 3.7 cents is a delivery and selling expense.

Processing expenses are the second largest, accounting for about 38 cents of the total operating cost dollar. Most of the processing expenses are in the three cost elements of containers, wages, salaries and commissions, and rent, repairs, and depreciation. Of the total container cost of 14.7 cents, 14.6 cents is charged to the processing function. The 13.0 cents for wages, salaries, and commissions for processing is 25 percent of the total of 52.6 cents for this cost element. Of the total of 14.1 cents for rent, repairs, and depreciation, processing expenses are 6.0 cents, 43 percent of the total.

Administrative expenses take 11 cents of the operating cost dollar. Over 60 percent of the total charged to these expenses was in the 7 cents for wages, salaries, and commissions. Most of the remaining 4 cents was for such cost elements as legal expenses, licenses (other than automobile and truck licenses), permits, payments to governmental regulatory agencies, and losses from bad debts.

Procurement expenses, in total, were only 1.5 cents. Of this amount, more than half was for personnel; most of the remainder was operating costs for automobiles.

OFFICIAL BUSINESS

Penalty for Private Use to Avoid  
Payment of Postage, \$300

UNITED STATES DEPARTMENT OF AGRICULTURE  
WASHINGTON 25, D. C.